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Financial Inclusion in Africa: Is the Informal Sector Still Relevant?

Financial Inclusion in Africa: Is the Informal Sector Still Relevant?

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Objectives of this webinar



- Share insights from research and programme implementation of the Savings at the Frontier (SatF) programme
- Take a closer look at informal savings mechanisms and their relevance and role in SatF programme countries
- Explore a more granular approach to understanding access and use of formal and informal financial services, typologies of informal savings mechanisms, and dimensions of financial inclusion
- Suggest some considerations for financial services providers (FSPs), sector stakeholders, regulators and policy makers

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- **Informal savings mechanisms (ISMs)** are a set of ways in which groups of people save money together or as individuals:
 - Some are facilitated by external individuals/organisations but a much larger proportion are self-organized
 - In some ISMs, savings accumulate over a cycle to be shared-out at completion and this often repeats multiple times
 - Others roll up saved capital but periodically make distributions from investment returns while some models do this in a circular, not accumulating manner.
 - ISMs come with a huge variety of names and formats but all build on two key principles of small-balance saving:
 - *larger sums of money work better than multiple small amounts deployed on their own and*
 - *peer encouragement strengthens the discipline to save.*
- **Formal Financial Institutions and Financial Services Providers**

Secondary data analysis



Story 1: Growth of informal finance, and relationships with formal finance



Use of formal financial services

| Category | Ghana | | Tanzania | | Zambia | | Total | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2011 | 2017 | 2011 | 2017 | 2011 | 2017 | 2011 | 2017 |
| Findex Microdata (Analysis by SatF team) | | | | | | | | |
| Overall reach of formal | 34% | 72% | 34% | 61% | 23% | 61% | 32% | 64% |
| FFI account only | 18% | 11% | 2% | 3% | 5% | 8% | 7% | 6% |
| FFI account + mobile/card | 12% | 31% | 15% | 18% | 16% | 28% | 14% | 23% |
| Digital but no FFI account | 4% | 30% | 17% | 40% | 2% | 25% | 11% | 35% |

Story 1: Growth of informal finance, and relationships with formal finance

Use of formal and informal financial services

| Category | Ghana | | Tanzania | | Zambia | | Total | |
|--|------------|------------|-----------|------------|-----------|------------|-----------|------------|
| | 2011 | 2017 | 2011 | 2017 | 2011 | 2017 | 2011 | 2017 |
| Findex Microdata (Analysis by SatF team) | 2011 | 2017 | 2011 | 2017 | 2011 | 2017 | 2011 | 2017 |
| Informal (with/without formal) | 10% | 19% | 8% | 18% | 7% | 24% | 8% | 19% |
| Overlap formal and ISM | 6% | 17% | 6% | 14% | 2% | 20% | 5% | 16% |
| ISM only | 4% | 2% | 2% | 4% | 5% | 4% | 3% | 3% |

Residual exclusion

| Category | Ghana | | Tanzania | | Zambia | | Total | |
|---------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Nothing outside cash/home | 62% | 26% | 64% | 35% | 72% | 35% | 65% | 33% |

Key takeaways from Ghana, Tanzania and Zambia



- During 2011-17, customers using a Formal Financial Institutions account doubled 32% to 64% (including mobile money);
- During 2011-17, adult population using ISMs expanded from 8% to 19% i.e. 7.3 million additional savers started using ISMs;
- Most of this rapid expansion came from those using both ISMs and FSP accounts (up 5% to 16%);
- Percentage of the population
 - **using only ISMs** remained constant at 3 percent
 - **using only FSPs** slightly decreased (down 7% to 6%)

What is happening in Kenya?



G/T/Z comparison with Kenya (2011-17)



| Category | G/T/Z | | Common findings | Kenya | |
|--|------------|------------|-----------------------|------------|------------|
| | 2011 | 2017 | | 2011 | 2017 |
| Findex Microdata (Analysis by SatF team) | 2011 | 2017 | | 2011 | 2017 |
| Overall reach of formal | 32% | 64% | | 72% | 87% |
| FSP account only | 7% | 6% | Small/Stagnant | 2% | 4% |
| FSP a/c + Mobile Money/Card | 14% | 23% | Rising steadily | 40% | 52% |
| Digital but no FSP a/c | 11% | 35% | Matures at one third? | 30% | 31% |

G/T/Z comparison with Kenya (2011-17)



| Category | G/T/Z | | Common findings | Kenya | |
|--|-----------|------------|-----------------|------------|------------|
| | 2011 | 2017 | | 2011 | 2017 |
| Findex Microdata (Analysis by SatF team) | 2011 | 2017 | | 2011 | 2017 |
| Informal (with/without active formal) | 8% | 19% | | 19% | 35% |
| Overlap formal/ISM | 5% | 16% | Growing rapidly | 18% | 33% |
| ISM only | 3% | 3% | Tiny/Stagnant | 1% | 2% |
| Nothing active outside cash/home | 70% | 39% | Sharp decline | 55% | 18% |
| Total adult population (15+) million | 48.87 | 58.74 | | 24.22 | 29.59 |

Kenya: a closer look

- Access Strand Kenya



Source: FinAccess Household Survey Kenya 2019

- Kenya – Changing usage of financial services (not unique)

| Type of Financial Services | 2006 | 2009 | 2013 | 2016 | 2019 |
|---------------------------------------|------|------|------|------|------|
| Bank (Traditional and mobile banking) | 14.0 | 20.5 | 29.2 | 34.4 | 40.8 |
| Mobile Money | 0 | 27.9 | 61.6 | 71.4 | 79.4 |
| Informal Groups | 32.4 | 36.0 | 27.7 | 41.1 | 30.1 |
| Digital Loans App | 0 | 0 | 0 | 0.6 | 8.3 |

Source: FinAccess Household Survey Kenya 2019

Multiple use of financial services – Kenya (2006-19)



| Use of financial services | 2006 | 2009 | 2013 | 2016 | 2019 |
|--|-------------|-------------|-------------|-------------|-------------|
| One type of financial service | 39.8 | 36.1 | 26.9 | 22.6 | 15.3 |
| Two or more types of financial services | 18.8 | 31.2 | 47.8 | 60.0 | 73.7 |
| None (Excluded) | 41.3 | 32.7 | 25.4 | 17.4 | 11.0 |
| Total | 99.9 | 100.0 | 100.1 | 100.0 | 100.0 |
| One type of financial service | 39.8 | 36.1 | 26.9 | 22.6 | 15.3 |

Key takeaways



- **Ghana, Tanzania and Zambia offer quite different contexts but offer similar trends in terms of-**
 - **Take up of formal,**
 - **Reducing informal on its own**
 - **Growing overlaps between formal and informal**
 - **Almost halving of financial exclusion in 6 years**
- Kenya, is at the forefront of financial innovation and digitization but offers similar pattern despite being far ahead
- For Kenya, the Findex data trends also validated by FinAccess Kenya data (available for much longer period)
- **Formal financial sector is**
 - **Often complementary to informal**
 - **Not yet able to match the value to customers offered by the informal sector**

Evidence and Insights



Story 1: Evidence and Insights



- **ISMs offer value that financial services providers don't currently offer**
- **Local** and **personable** financial services
- Offer includes **support**: social protection, decision support, planning behaviour and salient aspirations, concrete steps and action plans through examples, social norms, realistic and productive goal setting, identity and self-affirmation
- Tools of soft-commitment
- Tools for **cash-flow management** and accumulation
- **All amounts are accepted**
- **Digitisation does not (yet) provide significant changes to customer convenience/ hypothetical value**

Story 1: Evidence and Insights



- **ISMs still offer services in rural areas that are not yet served by FSPs and peri-urban areas that remain under-served**
- **Data gap** Only decentralised data exists on the location of facilitated ISMs, hardly any data exists on non-facilitated/self-organised ISMs and access points of financial services and mobile money providers
- **Rural outreach** remains limited even with mobile money
- **Urban and peri-urban challenge**
- **Perceptions of proximity** shaped by
 - Type of financial services accessed
 - Social and cultural distance
 - Main public transport routes and customer movement

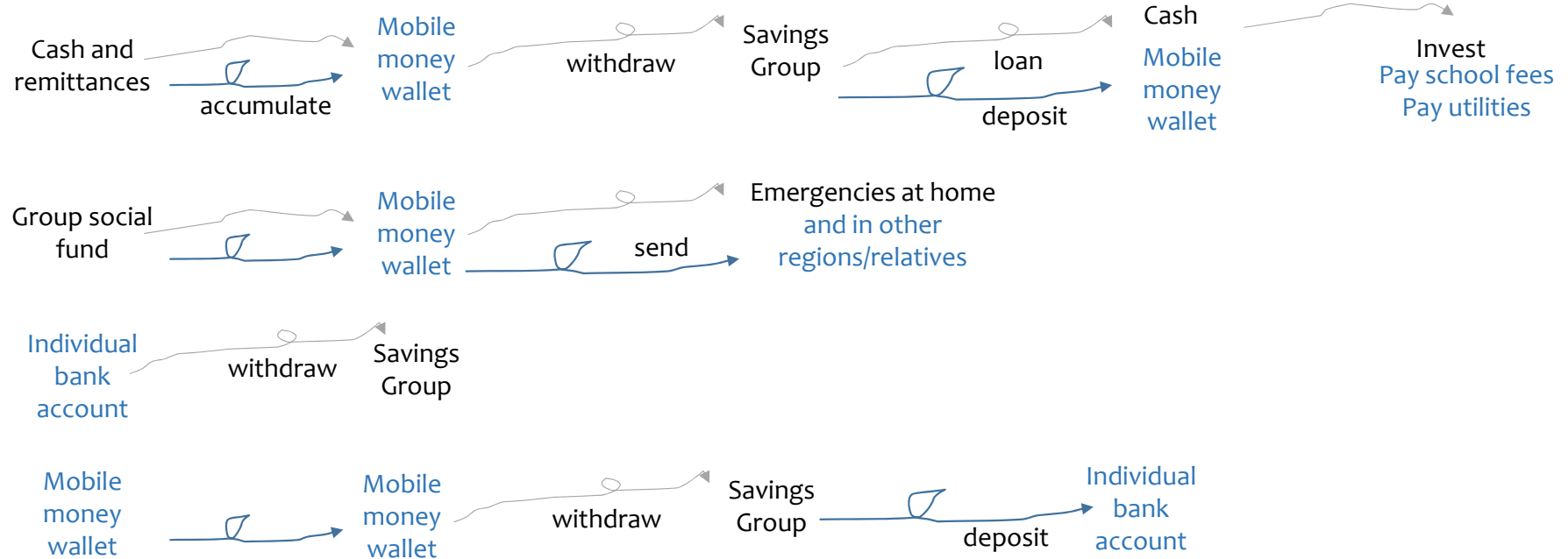
Story 1: Evidence and Insights



- **Customers do not “graduate” from informal financial service to formal financial products and use a variety of financial products**
- Informal savers use a **variety of formal and informal financial services** (not all financial eggs in one basket)
- In Ghana and Zambia, informal savers use digital finance in a **complementary manner**
- Urban/peri-urban customers deposit money with **more than one FSP**
- **Tanzania** ISM users already have individual accounts before collective decisions to “link” are considered by ISM
- **Zambia** Examples of nurses, doctors and teachers save in non-facilitated ISMs, contributions are made in cash (i.e. informal also used by non-poor)

Story 1: Evidence and Insights

Four formal and informal customer journeys



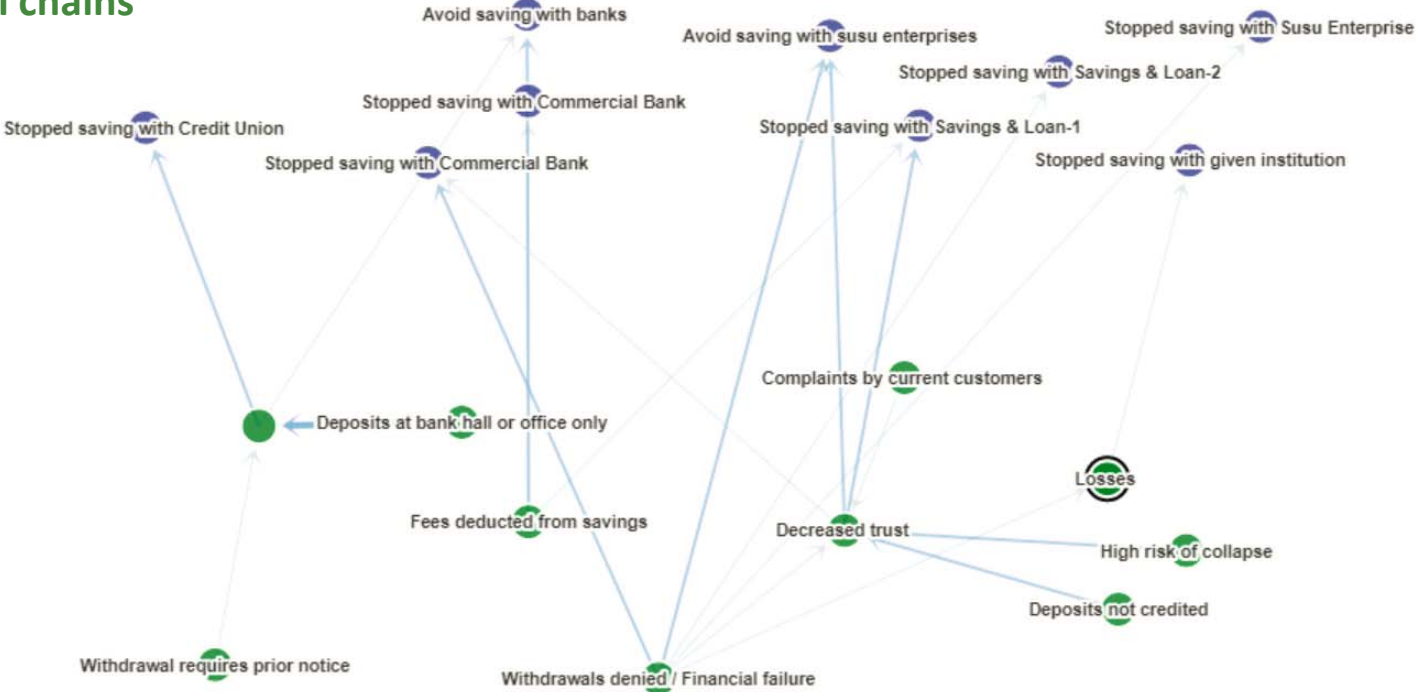
Story 1: Evidence and Insights



- **Customers opt out of the formal financial sector if the value offered is not convincing or they have a negative experience**
- **Safety and trust** “Now I don't save for more than a month with any susu company. At the end of every month I take my savings from them. People have run away with my money before.” (Ghana)
- **Negative experiences** direct or indirect
- **Maintenance and withdrawal fees** “I used to save with [commercial bank]. They are reliable. But they were deducting money from my account for different reasons like bank maintenance.” (Ghana)
- Fees and charges are not communicated well and not transparent, not proportionate, reoccurring and do not benefit the ISM (Zambia)

Opting out

- Causal chains



Story 2: Growth of digital nomads

| Category | Ghana | | Tanzania | | Zambia | | Total | |
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Discussions with FSP partners and sector stakeholders



Discussions with our partner FSPs



- **Beware of binary categories.** Develop a more granular understanding of perceptions, preferences, decision making, biases and behaviour of different segments and customer personas
- Understand barriers and value drivers (anonymity, security, proximity, affordability, range of financial services, etc.) for different personas
- Identify and understand existing touch-points
- Identify and understand pain points
- It is important to hear what customers say – even more important to observe what they do (with their time and money to meet their financial needs)

Discussions with our partner FSPs



- ISMs are **not competition**. They are engagement and learning opportunities to offer value added, complementary financial products
- Learn from mobile money service providers and informal arrangements
- Develop products and services that interact with ISMs and ISM users, they **have to** enable as fee free transactions between users and ISMs (as possible)
- Users will react to what is offered – continued need for action research
- The offer to move money over geography/ across people is getting attractive; much more is needed to move money over time e.g. convert small savings into lumpsums or vice versa

Considerations for policy makers and sector stakeholders



- What lessons can we draw from the continued use of informal financial services? Are they offering value that currently is not being offered by FSPs?
- What lessons can we draw from those joining the formal sector and becoming inactive or remaining largely dependent on informal financial services?
- Instead of aiming to transfer informal savers into formal financial systems, can informal financial services be formalised and regulated?
- Is it realistic to formalise/ regulate informal financial services - what are the risks and costs for the users, financial services providers and regulators? Will this make ISMs less attractive for the users?
- Can self-organised ISMs (especially non-facilitated) be strengthened and improved – by whom?

Savings at the Frontier Programme



- Savings at the Frontier is a provider-led programme funded by Mastercard Foundation, aiming to find commercially viable and sustainable models to offer affordable and adequate financial products to informal savings mechanisms and their users
- Triple win, provider-led and adaptively managed
- Opportunities to **continue the discussion**:
 - [Banking on the Last Mile conference](#) in Kampala, Uganda in 1-3 October
 - At the launch of our savings group research study in Lusaka, Zambia in late October
 - At the SG2020 conference in Durban, South Africa in 10-12 March, 2020
 - On twitter [@savingsfrontier](#)
 - Or send us an email: MREL Manager: hanna.laufer@opml.co.uk, Team Lead: sukhwinder@arora-associates.com

References and further material



- Demirgüç-Kunt, Asli, Leora Klapper, Dorothe Singer, Saniya Ansar, and Jake Hess. 2018. The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution; The World Bank
- FinAccess Household Survey Kenya 2019
- Bath Social Development Research, QuiP methodology, SatF team analysis
- Sukhwinder Arora and Ian Robinson (2019) "Savings Groups and Consumer Protection: Government Regulation, Rules and Guidelines, The SEEP Network see <https://seepnetwork.org/Resource-Post/Savings-Groups-and-Consumer-Protection-Government-Regulation-Rules-and-Guidelines>
- Does Informal Finance Still Matter? Evidence from Kenya, Ghana, Tanzania and Zambia <https://www.findevgateway.org/blog/2019/sep/does-informal-finance-still-matter>
- Other Savings at the Frontier research studies, and blogs: <http://www.opml.co.uk/projects/savings-frontier>

Q & A



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Thank You!



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